

**Underpayment of Estimated Tax by Corporations and Financial Institutions**

NAME _____	Federal T.I.N. _____
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Computation of Underpayment

NOTE: If you meet any of the exceptions (see Instruction D) that avoid the underpayment penalty for ALL quarters, omit lines 1 through 9, and go directly to line 10.

1. 2005 tax (line 19, IA 1120 or line 11, IA 1120A or line 15, IA 1120F)	1	_____
2. Total credits (line 20, IA 1120 or line 17, IA 1120A) or minimum tax carryforward credit (line 16, IA 1120F)	2	_____
3. Balance (subtract line 2 from line 1)	3	_____
4. 90% of line 3	4	_____

		Due Dates of Installments			
		(1)	(2)	(3)	(4)
5. Enter in columns 1 through 4 the installment dates that correspond to the last day of the 4th, 6th, 9th, and 12th months of your taxable year	5				
6. Enter 25% of line 4 in columns 1 through 4	6				
7. (a) Amount paid or credited for each period	7a				
(b) Overpayment of previous installment (an overpayment on line 9 in excess of all prior underpayments is to be applied as a credit against the next installment)	7b				
8. Total of lines 7(a) and 7(b)	8				
9. Underpayment (line 6 less line 8) or overpayment (line 8 less line 6)	9				

Exceptions that Avoid the Underpayment Penalty (See Instruction D) Exceptions 1 and 2 not applicable for initial year filers.

10. Total cumulative amount paid or credited from the beginning of the taxable year through the installment dates that correspond to the last day of the 4th, 6th, 9th and 12th months of your taxable year	10				
		25% of tax	50% of tax	75% of tax	100% of tax
11. Exception 1: Prior year's tax	11				
		25% of tax	50% of tax	75% of tax	100% of tax
12. Exception 2: Tax on prior year's income using current year's rates	12				
		22.5% of tax	45% of tax	67.5% of tax	90% of tax
13. Exception 3: Tax on annualized income (attach schedule)	13				

Computation of Underpayment Penalty

14. Enter same installment dates used above (line 5)	14				
15. Amount of underpayment from line 9	15				
16. Date of payment (See Instruction F)	16				
17. (a) Number of days from due date of installment to date of payment or Dec. 31, 2005, whichever is earlier	17a				
(b) Number of days inclusively from Jan. 1, 2006, or due date of installment whichever is later, to the date of payment or the last day of the fourth month after the close of the tax year, whichever is earlier	17b				
18. (a) 6% a year on the amount shown on line 15, for the number of days shown on line 17(a) (See Instruction F) .	18a				
(b) 8% a year on the amount shown on line 15 for the number of days shown on line 17(b) (See Instruction F)	18b				
19. Total of lines 18(a) and 18(b)	19				
20. Penalty: Add the four columns of line 19 and enter here. Also, show the amount on line 25, form IA 1120 or line 22, form IA 1120A or line 21, form IA 1120F	20				

INSTRUCTIONS

A. Purpose of Form

Form IA 2220 will enable corporations and financial institutions to determine if they paid the correct amount of estimated tax by the proper due date. If the minimum amount was not paid timely, an underpayment penalty is imposed for the period of the underpayment. This form helps you to determine whether or not you are subject to such a penalty.

B. Estimated Tax

Every corporation or financial institution with \$1,000 or more in tax due after credits is required to file estimated tax.

C. Use of 2005 Form

The 2005 form must be used for taxable years beginning on or after January 1, 2005.

D. Exceptions that Avoid the Underpayment Penalty

No penalty will be charged for any underpayment on line 9 if:

- (1) All of the payments were made on or before the due date of the installment, and
- (2) The total payments made by that installment date equal or exceed the amount which would have been due if the estimated tax were calculated using any of the exceptions listed below:

A different exception may be applied to each underpayment. If there has been an underpayment of the amount of the estimated tax, and the taxpayer believes that one or more of the exceptions to the penalty precludes the assertion of the underpayment penalty, the taxpayer should complete lines 10 - 13 showing the applicability of any exception upon which the taxpayer relies. If no exception applies, complete lines 14 through 20 to determine the amount of the penalty on the underpayment from line 9.

Exception 1: Prior year's tax.

This exception allows corporations and financial institutions to substitute for the current year's estimate, the amount of the tax shown on the return for the preceding taxable year. This exception may be utilized only if the preceding taxable year was a taxable year of 12 months and a return showing a tax liability (including a "zero" liability) was filed for that year. Corporations or financial institutions filing an initial year Iowa return may not use Exception 1.

Exception 2: Tax on prior year's income using current year's rates

This exception allows corporations and financial institutions to use a tax computed by using the current year's rates but otherwise on the basis of the facts and law applicable to the prior year. Corporations and financial institutions filing an initial year Iowa return may not use Exception 2.

Exception 3: Tax on annualized income

This section applies if the corporation or financial institution made an estimated tax payment of at least 90% of the amount it would owe if its estimated tax were a tax computed on annualized taxable income for the months preceding an installment date.

A corporation or financial institution may thus annualize its income:

- (a) For the first 3 months if the installment was required to be paid in the 4th month;
- (b) For the first 3 months or the first 5 months if the installment was required to be paid in the 6th month;
- (c) For the first 6 months or the first 8 months if the installment was required to be paid in the 9th month; and
- (d) For the first 9 months or for the first 11 months if the installment was required to be paid in the 12th month.

To annualize, multiply taxable income for the period by 12 and divide the resulting amount by the number of months in the period (3, 5, 6, 8, 9, or 11, as the case may be). Attach corporation income statements for appropriate months in the tax period.

E. Overpayment

A payment of estimated tax on any installment date is considered a payment of any previous underpayment only to the extent the payment exceeds the amount of the installment as computed on line 6.

F. To Compute Penalty

Use the following formula:

$$\text{Penalty} = \text{daily \% rate (line 18)} \times \text{number of days (line 17)} \times \text{underpayment (line 15)}$$

The daily percentage rate is:

6% per annum = 0.016438% per day (1/1/05 - 12/31/05)

8% per annum = 0.021918% per day (1/1/06 - 12/31/06)

Date of payment (line 16): Once a payment is made to cover an exception to the penalty, the underpayment is no longer outstanding, so the penalty computation stops at the date that payment is made.

Example: A corporation underpaid the April 30 installment by \$1,000. The June 30 installment requires a payment of \$2,500. On June 25, the corporation deposits \$2,500 to cover the June 30 installment. However, \$1,000 of this payment is applied against the April 30 installment. The penalty for the April 30 installment is figured from April 30 to June 25 (56 days). The remaining \$1,500 is applied to the June 30 installment.

Please attach this form to your Corporation Income Tax Return, form IA 1120 or IA 1120A, or form IA 1120F.

Questions?

Call 1-800-367-3388 (Iowa, Omaha, Rock Island/Moline) or 515/281-3114 (Des Moines, Out-of-State.)

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